

Message Text

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PAGE 01 LONDON 01062 241251Z

44

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00

DODE-00 EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-10 PA-04 RSC-01 AID-20 CIEP-02 SS-20

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 FEA-02

OMB-01 DRC-01 /192 W

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R 241238Z JAN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7350

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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DEPT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: EFIN, UK

SUBJECT: PARLIAMENTARY EXCHANGE ON C-20 MEETING AND
FLOATING OF FRENCH FRANC

1. ON JANUARY 22, IN ANSWER TO A QUESTION PUT TO THE
CHANCELLOR BY DENIS HEALEY (THE SHADOW CHANCELLOR) ABOUT
THE UK TRADE FIGURES (ANNOUNCED JANUARY 21) AND THE
FLOATING OF THE FRENCH FRANC, MR. BARBER MADE SEVERAL
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PAGE 02 LONDON 01062 241251Z

COMMENTS ABOUT THE RECENT C-20 MEETING AND UK REACTION TO

THE FRANC FLOAT.

2. ON THE C-20 MEETING, THE CHANCELLOR SAID QUOTE THE MINISTERS OF THE COMMITTEE, MEETING IN ROME LAST WEEK, REVIEWED THE CURRENT ECONOMIC SITUATION AND IN PARTICULAR THE IMPLICATIONS FOR THE WORLD ECONOMY OF THE LARGE RISE IN OIL PRICES. THE COMMITTEE AGREED THAT COUNTRIES SHOULD NOT ADOPT POLICIES WHICH WOULD MERELY AGGRAVATE EACH OTHER'S PROBLEMS. THERE WAS GENERAL RECOGNITION OF THE DIFFICULTIES THAT WOULD BE CREATED, IN PARTICULAR FOR DEVELOPING COUNTRIES, AND THE NEED TO FIND ORDERLY WAYS OF CHANNELLING SURPLUSES TO COUNTRIES IN DEFICIT. THE COMMITTEE CONSIDERED A PROPOSAL BY THE MANAGING DIRECTOR OF THE IMF FOR A NEW FUND FACILITY, AND AGREED THAT THIS SHOULD BE EXPLORED UNQUOTE.

3. ON THE FRANC FLOAT THE CHANCELLOR COMMENTED QUOTE IT IS TOO EARLY TO SAY WHAT WILL BE THE EFFECT OF THE DECISION OF THE FRENCH AUTHORITIES TEMPORARILY TO ALLOW THE FRENCH FRANC TO FLOAT. BUT THE IMMEDIATE EFFECT HAS BEEN TO IMPROVE STERLING'S OVERALL EFFECTIVE EXCHANGE RATE UNQUOTE. IN RESPONSE, MR. HEALEY WENT ON TO ASK QUOTE DOES (THE CHANCELLOR) NOT AGREE THE DECISION OF THE FRENCH GOVERNMENT TO FLOAT AT A TIME WHEN IT HAS SUBSTANTIAL RESERVES AFTER A YEAR IN WHICH IT HAD A 600 MILLION POUND SURPLUS ON ITS BALANCE OF PAYMENTS, SUGGESTS THAT IT IS ADOPTING BEGGAR-MY-NEIGHBOR POLICIES, AND THE WORLD MAY BE EMBARKED ON A COURSE OF COMPETITIVE DEVALUATION? UNQUOTE. MR. BARBER REPLIED QUOTE THE FRENCH AUTHORITIES HAVE MADE IT CLEAR THEY INTEND TO MAINTAIN ORDERLY CONDITIONS IN THE EXCHANGE MARKET, AND DO NOT INTEND TO TAKE ACTION WHICH WOULD INITIATE A SERIES OF COMPETITIVE DEVALUATIONS, BUT IT IS BOUND TO HAVE EFFECTS ON OTHER CURRENCIES. THE IMMEDIATE EFFECT OF THE FLOATING OF THE FRANC HAS BEEN TO IMPROVE STERLING'S OVERALL EFFECTIVE EXCHANGE RATE. WE HAVE A SIZABLE BORROWING CAPACITY IN THE IMF AND I WOULD NOT HESITATE TO USE THIS IF NECESSARY. THERE WERE STORIES IN THE PRESS THAT THIS WAS DISCUSSED IN ROME, BUT THAT WAS NOT SO UNQUOTE.

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PAGE 03 LONDON 01062 241251Z

4. COMMENT. BRITISH REACTION TO THE FRENCH FRANC FLOAT HAS BEEN LOW KEY AND WHILE THE BRITISH WERE TAKEN BY SURPRISE BY THE FRENCH ACTION, THE MOVE HAS NOT BEEN HARSHLY CRITICIZED IN THE PRESS.

ANNENBERG

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Disposition Event:
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Disposition Reason:
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